John E. Fetzer Memorial Trust

Date: March 8, 2015
Author: Bruce Fetzer, Lou Leeburg
Category: Trust Histories

TO: Rob, Bob
FROM: Bruce F, Lou
RE: March 3 draft of discussion framework
Date: March 8, 2015

As requested, we are responding to your discussion framework dated March 3. We agree that this is an important time for both organizations as we together seek to cement the vision into the future.

We believe that the most important steps in this discussion are identifying what criteria are used for the decision, how they are weighted and the process used to create consensus around the decisions. Done well, we can build momentum towards an even more successful future. We would like to start our response with these considerations, then turn our attention to the specifics of your draft.

Criteria should include both objective and subjective elements. We propose a process where questions are used in joint board session to determine the relevant set of criteria at the outset. The manner in which the joint discussion(s) is held is vitally important to preserving morale and creating a shared future. Broader questions would better identify what particular financial or programmatic benefits are enhanced because of the Trust structure. We offer the following questions, which came from Memorial Trustees when we drafted our task force information request of February 9.

1. What are the current benefits of the Trust, *independent of the Trust personnel*?
2. What are potential *future* uses, and benefits of the Trust?
3. What are the implicit benefits of the Trust as a separate entity from the Institute?
4. How could a whole science program be permanently built to explore and advance our purpose?

Once criteria are identified, a process needs to be devised to weight the criteria. Subjective criteria need to be included as well. While objective facts matter, *judgment is going to be more important in order to consider the intangible benefits and costs*.

Terminating the Trust at the end of 2020 is irreversible. The Institute would never be able to create another entity with an endowment in the future. Nobody knows what's going to happen by 2021. At best, the decision should be provisional, with documentation of the assumptions.

History has shown a high degree of change at the Institute. External factors that impact both the Institute's endowment and programs are also rapidly changing. Who knows what the state of the world will be in six years? A decision made now should be staged, to allow a second review and vote, sometime early in 2020.

March 3 framing draft by Rob and Bob

We would have preferred to solicit input from the Memorial Trustees, on matters of this gravity, but time didn't permit. We are not sure that this represents the Trust Board view, but nevertheless offer comments for illustration. Moreover, our written response without dialogue does not adequately reflect the commitment and aspiration that we intend.

Your framing draft of March 3 was written before the Trust's task force response of March 6. The Trust response has a number of considerations that are relevant to this decision.

While, analyzing the reasons used to extend the Trust back in 2009 has some merit. we think that the bigger questions are forward looking (as stated above). Another consideration is:

> "The current structure cannot be replicated once consolidated. The Probate Court also approved a unique clause enabling the Trust to be extended at the election of joint action. Does it have a unique value to the Fetzer Institute because of this structure and option?

Spiritual identity

Since course correction back to the founding Spiritual purpose has been needed in the past, its likely also needed into the future. This vital responsibility has often been shared by both the Institute and Trust *to diversify the risk of drifting,* and is uniquely engaged because of the tension between partial independence on one hand and accountability to the Institute on the other.

> "Does the Trust's unique tension between independence and accountability potentially contribute to strengthening the Institute's grounding in its spiritual identity past 2020?"

John Fetzer legacy

The Trust legacy project is more comprehensive than stated. The Trust response to the February 9 inquiry identified four different stages of legacy and included a pressing planning need. While the first three stages are scheduled to end by 2020, the ongoing process of creating a relevant, applied, and embodied understanding of the spiritual search in its different applications is perpetual. This activity would not be expensive, but is still vital to preservation of the founding vision.

> "Would sharing legacy responsibilities within the Trust as an independent, but accountable entity past 2020 elevate the importance of maintaining the founding legacy?"

Mandatory payout rate

The concluding question is fine. The discussion section needs revamping:

- The minimum payout rate for operating foundatinos is not always 3.5%. It's between 3.5 and 4.2% depending on the amount and type of revenues generated by the portfolio. Therefore, under certain conditions, the Institute would not have the option to reduce spending if the endowments were combined.
- The actual historical combined spending is not relevant to the question, "Are there any future circumstances under which the combined entity would want to spend less in order to preserve corpus?" There are of course multiple scenarios;
- A protracted low return environment, causing expenses to exceed revenues
- An uptick in market volatility, causing a reduction in the portfolio value
- A desire to rebuild the corpus in the event that the Institute elected high spending for a short period.
- Your paper inferred that the option to spend at lower rates isn't needed based on past returns. Outperforming investment return assumptions shouldn't be used for long term planning. The Institute and Trust only met the long term goal of growing the real corpus because of superior performance. Assuming the median endowment return over the same historical period would result in the endowments not having preserved real spending power.
- The joint boards haven't taken advantage of the option to reduce spending rates. That doesn't mean that the Institute and Trust never would minimize the spending rate in the future.
- The fact that reducing the spending rate increases total spending in the long term is a concept that is hard to understand. We attempted it in our March 6 response but are open to ways to convey that. Your March 3 paper doesn't mention that total spending would increase over time, if the payout was coordinated to minimize the spending rate.

Investment strategy

This section isn't needed. There is seamless cooperation, coordination and goodwill between the Trust and Institute regarding the endowment management. The discussion does miss one point about the personnel. The portfolio return results reflect the joint work of multiple parties working together. Exchanging the best ideas allowed both endowments to earn returns well in excess of its peers for substantial periods of time.

Fetzer science

The science discussion is a more comprehensive than addressed in the framing memo. The role and priority of whole science are legacy issues.

> How is Fetzer going to keep the legacy of whole science alive and relevant in the long term?

The Trust's March 6 paper identified three key questions in the science area:

What is the basis for and proposed structure of a broad science program that includes initiatives of both the Institute and Trust?
What is the role of the Fetzer Franklin Fund in future Fetzer science programs?
What are the agreed upon resources (financial and personnel) required to maintain the Fetzer science program and to continue it into the future?

We also suggest that the discussion state that there are substantial differences between the structure, culture and external perception for the Fetzer Franklin Fund as operated in the Trust than if prospectively operated by the Institute. These considerations are vital to the program's effectiveness.

Attachment
One attachment compiled data from the Trust tax return and labeled operations as "administrative cost". It would be more accurate to call it "direct charitable services". Administrative costs at the Trust are quite low among non-profits. Most of the Trust's "costs" are incurred by "directly conducting" program work. It includes substantial costs of engaging Fetzer Franklin advisors and engaging activities.